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The fallacy of corporate excellence

How organisations define and review their employees' performance, combined with their motivational philosophy, reveals their attitude to excellence

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It's probably not contentious to state that most organisations claim to value performance excellence. To name just one, Barclays plc has 'excellence' as one of its 5 core values[*].

Equally, you would probably have to speak with many Human Resource Directors before you found one expressing a dis-interest in developing talent. Talent development is a core function of any HR department, with small fortunes spent on training courses. Indeed, corporate Universities are becoming increasingly popular.

Yet it is the contention of this article that much of this is a fallacy. There is a disconnect between what some companies claim to be their core purpose, and what actually goes on behind the scenes.

Of course, there are exceptions. But many companies ultimately fail, and studies of 'great companies' often turn out to be simply winners of a random walk.[†] This lack of resilience suggests people within these companies are focused on something quite different to 'being excellent.'

The approach corporates use to develop talent is a case in point. More specifically, how the business world appraises and reviews performance of staff. How companies go about this process is a barometer of what their attitude *really* is to developing talent, and creating a climate where people are able to perform at their very best.

This paper discusses how corporates review staff performance, contrasting this with fields where performance excellence is critical to success. It is informed by a survey of professionals in various fields, at different levels of seniority.

Relatedly, the methods adopted to motivate and incentivise staff are critiqued and compared with what we know about human motivation. Suggestions are made for creating high-performing motivational climates.

[*] Corporate website
[†] A Random Search for Excellence. Raynor, Ahmed, Henderson. Deloitte

Executive summary

Many businesses believe they are performance-focused, when in reality they are results-focused. The difference is not one of semantics. Rather, it illustrates what organisations value. In turn, this impacts what they spend much of their time thinking about and trying to achieve.

An exemplar of this results-focused culture is how business reviews the performance of their employees. Performance reviews occur at regular intervals, largely entail assessing if targets have been achieved, and rating an employee's performance. They are confidential, the details known only to the performer and their boss.

Such an approach is the antithesis of high-performance. Not only is the review process distinct from everyday work, but it also creates a conflict of interest between team and individual performance. It is based on the premises that competition between employees' cultivates excellence, and that people need to be motivated. Both beliefs are seriously flawed, with pernicious consequences.

High-performing cultures use performance reviewing to serve one purpose only; to help performers improve. It is part of the holy trinity of learning any skill. Reviewing is tightly interwoven into daily work, with the process being congruent to both individual and team success.

High-performance cultures create climates that support self-motivation. They don't 'try to motivate.' Churchillian speeches serve little purpose in these cultures, as do promises of financial rewards conditional on targets being met.

A preoccupation with meeting targets leads to companies focusing on the 'wrong kind of excellence', with damaging consequences both for the organisation and employee talent development. It has also been suggested that a results-focused culture has contributed to the UK's problem of low productivity in recent years[*].

Performance and results are not synonymous. Companies would be better advised to expend more energy understanding *how* they plan to achieve the core purposes of their business. Results will then look after themselves.

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[*] 'Executive pay holds the key to productivity puzzle' Andrew Smithers, Financial Times May 28th 2015

The corporate attitude to performance reviewing

What ***is*** performance anyway?[*]

When the corporate world discusses performance, there is little ambiguity. They talk about the delivery of business objectives and the extent to which they are being met. Sales targets, profitability, costs, alpha (supercilious hedge fund language) - business is brilliant at measuring and monitoring objectives. Collectively, they are known as Key Performance Indicators (KPIs).

Santander UK plc is a perfect exemplar of this. Their website states:

"We measure our performance with key performance indicators"

Their strategy and business model adopts various KPIs to measure their three strategic priorities. These KPIs are, largely, numerical targets[†], the dangers of which will be discussed later.

Performance reviews in the corporate world

At the level of individual employees, there appear to be large differences between businesses, in both the approach used to review performance, and in how 'performers' experience the process. Many companies conduct annual performance reviews, some quarterly and the very few, monthly. Even fewer don't seem to do them at all.

The CIPD[‡] believes the purpose of performance reviews is to provide support, assess recent performance and focus on future objectives and the resources needed to achieve these goals. Unhelpfully, they don't define what they mean by performance, although it's a fair bet they would adopt the 'meeting-targets' definition.

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[*] For a deeper understanding of high-performance read 'Perform' by Hatter, Shambrook & Constable

[†] Source: Santander UK plc Annual report 2013

[‡] Chartered Institute of Personnel and Development

Staff ratings

Nearly all organisations ‘rate’ their employees performance. Sometimes the rating criteria are clear, although often they are vague. Some are based on how staff perform on their own merit, others compare performance across employees. The really pernicious ones sack staff who rank in the lowest percentiles. This normalization of a ranking system means that even if everyone in a team is performing exceptionally well, not all will get the top rating.

The implications of these perverse motivational strategies will be explored later but it is astounding that a belief exists that such policies are supportive of great performance. Suffice to say, it is based on some fallacious beliefs about human motivation.

What’s the point of a review and how does it affect people?

Most managers seem to believe that reviews are about verifying if objectives have been met, providing guidance on new targets and management expectations, justifying any bonus or promotions and possibly praising and motivating staff. Targets are often results-based, and are either imposed on an employee by their manager, or a collaboration between them.

Many employees don’t share the views of management. Performance reviews, when not done well, have been described to us as ‘pointless’, ‘a box-ticking exercise’ and ‘an irrelevance where you are told what you have done wrong.’ Most people only discuss their performance during a formal review process, most often with their boss. Reviews are closely guarded, confidential affairs.

The motivational impact of performance reviews, from the ‘performer’s’ perspective, varies enormously. ‘Good’ reviews, or reviews where a rating matches the performer’s perception of their performance, seem to leave people feeling motivated. More often, people leave a performance review feeling uninspired at best, or angry and deflated at worst.

The consequences of how business reviews performance

The paradox of excessive focus on output

Performance in the business world is about results, with KPIs being indicators of output. Of course, organisations need to be cash generative and profitable to survive. Yet, paradoxically, an excessive focus on achieving 'results' leads a company in the long term less likely to achieve them, as it encourages the wrong kind of excellence, in turn leading to unintended consequences that can weaken corporate resilience.

Wrong kind of excellence[*]

It should be no surprise that if people are promoted and rewarded based on meeting targets, they will single-mindedly focus on achieving them. So what's the problem? Well, whilst targets are being met and surpassed, a belief exists both within and outside an organisation that the company is a case study of business excellence. In reality, organisations become excellent at focusing on the wrong target, which invariably has unintended (and undesirable) consequences.

Unintended consequences

A myopic focus on numerical targets leads people to do whatever it takes to meet them. Behaviour is shaped by the need to 'perform', and as business conditions become tougher, with the targets more challenging, organisations lose sight of their core raison d'etre, wrongly interpreting great financial results as indicators of 'excellence.' We believe these factors led to various corporate scandals, including the banking crisis.

The banking crisis is the best recent example of focusing on the wrong kind of excellence. Banks were brilliant at focusing on profits and measuring risk (you'd be amazed how many people measure or monitor risk in a bank), yet it ultimately was of little help. In the UK, a preoccupation with NHS targets has led to suggestions clinical priorities have been distorted, with reports that some patients have been kept in ambulances to avoid 'starting the clock' on the A&E waiting times[†].

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[*] This phrase is copied from James Reason, a renowned Human Factors psychologist
[†] Guardian 2008, Telegraph 2009, as described by the Kings Fund

The consequences for skill development

The problems with rewarding staff for achieving numerical targets are detailed in the section on motivation, but Andrew Smithers has argued that it has contributed to the UK's low productivity in recent years. CEOs who are remunerated in share options for meeting share-price related targets, have been incentivised to sacrifice long-term investment projects for short-term profitability.

Indeed, no profession relies on financial reward quite like banking and investment management. When traders or fund managers receive large bonuses, they implicitly receive feedback confirming their competence and validating their abilities. As shall be discussed later, 'competence feedback' is central to motivation. The problem arises when traders make an attribution error, believing their high pay is caused largely by skill rather than by luck. Consequently, believing they are highly competent, they are less likely to focus on developing their skills going forward.

This attribution error points to an interesting contrast between sport and business; in sport, the correlation between skill and results is very high. In business, the link is far less clear, with many factors confounding business results. The implication is that the sports world, realising the importance of skill, has become excellent at developing talent. Despite the rhetoric of business leaders, and resources expended, business has much to learn in this area.

De-motivation

It is no surprise that the motivational impact of corporate performance reviews is ambiguous. When someone else's judgment is the basis of how well you have performed, they become the puppet master. How you feel when you leave a performance review meeting is largely conditional upon how the boss feels.

This system of manipulation is exacerbated when the reviewer decides the goals that are set in a review, which are then agreed to by the performer. Essentially, the manager ends up 'owning' the subordinate's performance; they own the goals that need to be met, and own the decision as to how well they have been met.

If you were to design a review system with the hope of leaving people feeling de-motivated, that would be a great system.

Detrimental effect on teams

Businesses highly value teamwork. Everyone is part of a team, and huge resources are expended in trying to create great performing teams. Which makes the corporate approach to performance reviewing all the more baffling.

If you want your team to achieve great things, why would you design a system that creates a conflict of interest between the team and the individual? And yet the use of normalized distributions to rate and reward an individual's performance does exactly that.

Introducing competition between staff leads individuals to focus on their own performance, no longer considering the team's goal to be paramount. Their own agenda supersedes that of the team. Rating systems that leave the bottom few out of a job, in the misguided view that competition breeds excellence, are even more of a disaster.

Furthermore, when an individual knows that they are competing for pay and status, they will become more insular, reluctant to share information with colleagues for fear of losing a competitive advantage (unless, of course, the criteria for achieving rewards is conditional on sharing information – this goes back to what type of excellence is demanded). There will also be less open and honest critiquing of team decision-making. After all, why would you help the team become great if you may suffer at the expense of your colleagues?

High-performance reviewing

Performance and results are not synonyms

A sporting analogy of how business approaches performance would be a football manager meeting with his striker on a Monday and demanding he score three goals in a match on Saturday, each by a certain time. On match day, with the striker failing to score despite great effort, the manager berates his player on the touchline, reminding him that 'we agreed this is what you would deliver.'[*]

Of course, this would be a crazy approach to talent development and cultivating excellence in elite-level sport. Nobody works that way. Yet elite sport knows how to achieve performance excellence. So how do they do it?

Performance-focused cultures do not share the belief held in the business world that performance is about meeting targets. That would be a **target-focused culture**. Rather, **performance is simply about how you try to be successful in what you want to achieve**. Results are outcomes, performance is the process adopted to achieve them. Results and performance are not synonyms.

Reviews are integral to the holy trinity

High-performance cultures review performance for one reason only – in order to **learn how to improve**. Reviewing is part of the 'holy trinity' of learning anything (how to make bread, differential equations, neurosurgery – it's all the same process).

Despite experience and observing colleagues being very bad ways of becoming excellent at what you do, most people learn their roles in this way. Roger Federer did not become great simply by playing tennis matches, and whilst business may not have the luxury of being able to practice like elite sports people, they can adopt review and feedback practices that are essential to learning.[†]

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[*] This analogy of how business and sport differ is from Chris Shambrook of K2 Performance, a Performance Psychology consultancy.
[†] This assumes that what you are doing has some skill to it. If it doesn't, don't tell anyone.

The big problem with feedback

Becoming excellent at what you do requires an **accurate evaluation of your current abilities** and understanding how you can get better. That is likely to involve being critiqued by others, possibly leaving a feeling of vulnerability and discomfort. Consequently, most people shy away from this process, and when they hear things they don't like, they ignore them.

Factors that help in receiving feedback

Effective performance reviewing requires **honesty** and **integrity**, both with yourself and others. This applies to the reviewer as well as the performer – if people consider the motives driving your 'feedback' to be anything other than helping them improve, you will cultivate distrust and defensiveness.

Equally, as a performer you have to want to listen to criticism because **you desire to get better at what you do**. This powerful motivational driver enables people to cope with uncomfortable feelings, eliciting fewer defensive responses.

The key to effective feedback and critiquing performance is that it must be helpful. Reviews that are used to exert power and control, de-motivate or even make people 'feel good' have no place in high-performance cultures. **The only purpose of all feedback should be to help someone perform better**.

Performance reviewing and team effectiveness

Nearly all of us work in teams, and yet performance reviews focus exclusively on the individual. This is not good practice if your business values high-performing teams.

Individual reviews often focus on the performer's contribution to the team, but conversations between team members about their performance is rare in business. Meetings where KPIs are discussed are not the same as discussing performance.

Elite teams spend time discussing how each member is impacting team performance. Regular de-briefing is critical. Listening to uncomfortable truths isn't easy, but within sport and the military the paramount importance of winning or staying alive enables people to tolerate, or even welcome, uncomfortable feedback. The challenge is greater in business, where people have different agendas and motives in their work careers, often competing with each other for status.

If your business values great team performance, it needs to create an environment where regular reviews or debriefs are carried out between team members. The focus should be less on discussing if results have been met, and more on critiquing performance.

Motivation

Performance reviewing is integral to motivation. When done well, it realigns one's focus on what needs to be achieved, and provides '**competence feedback'** to the performer. It also allows a performer to have absolute clarity as to what they have to do to improve.

To this end, **reviewing performance is self-motivating**. Feeling competent, having a clear idea of where you are trying to get to, how you can draw on your strengths to get better, whilst feeling in control of the process, is great for motivation.

What is NOT good for motivation is having someone else tell you how well you have performed, deciding what goals you need to achieve, and telling you what you do badly. Motivation is explored in more detail in the chapter on creating a motivational climate.

How great performance reviews work

Business tends to discuss performance at discrete moments in time, during meetings where targets, budgets and costs are discussed. Performing and reviewing are separate events. If they are one-on-one reviews, by and large the manager drives the review process.

In contrast, this is what high-performance reviewing looks like:

- Everything high-performers think and do on a daily basis is informed by a focus on performance. **'Doing and reviewing' overlap**.

- To that end, everything high-performers think and do must be **consistent with achieving their goals**. Anything else is not performance-focused.

- A keen eye is kept on desired results, but much more time is spent identifying ***what*** needs to be done to achieve them and ***how*** this will be done.

- Colleagues are regularly asked for feedback. Bosses, subordinates, and friends can all provide valuable information.

  The challenge here is eliciting honest responses. This is most likely if you ask them just one question – **"how can I improve'**?

- High-performers **optimise the use of available resources**. They ask; who and what can help me improve, and in what way?

- People are **clear about their strengths** and how they can be developed further. Weaknesses must also be identified but focusing on strengths is empowering and motivating.

- Reviews **anticipate the obstacles** that will prevent goals being achieved, and plans are made for dealing with these situations.

- Reviews **measure process**, not results, in stark contrast to the approach used by business.

- **Performers 'own' their reviews**. High-performers realise that they are ultimately responsible for their performance and don't look to others for motivation. The concept of blaming others for not creating the ideal performance climate is anathema to high-performance. We all face constraints in our work environment and need to work within them if we can't control or change them.

Creating a high-performance motivational climate

Organisations want committed employees, behaving in ways congruent with company values. They demand 'team players' that will proactively strive to help the organization achieve its goals.

To that end, motivation plays a central role in performance reviewing. Unfortunately, the approach to motivation in the business world appears to be based on two false premises; that competition breeds excellence, and that people need to be motivated.

False premise 1: Competition breeds excellence

Psychologists who help the business world apply best practice from elite sports are often criticized, quite rightly, for not appreciating how the two worlds differ. Yet business has taken one aspect that works really well in elite sport and inappropriately transposed it onto their business models – competition.

Association between competence and excellence

Competition in elite sport breeds excellence because it drives athletes to become the best version of themselves in order to 'win.' Sport is (largely) a meritocracy, where intense competition between individuals to develop their talent brings the cream to the top. What's more, there is a clear link between performing well and receiving rewards. The best team wins the league, the best tennis player wins Wimbledon etc. Finally, professional athletes' sense of identity is embedded in being an athlete, and they compete in order to maintain this. This simply doesn't apply in the business world.

Furthermore, the relationship between competition and motivation is often misunderstood. Many top-level sports people are driven not so much by competing with others, but by competing with themselves – to constantly improve.[*]

[*] People who are motivated by *being* competent rather than *appearing* competent tend to show greater resilience

Why this fails in business

There is a pervasive belief in business that inducing competition between employees' leads to better individual and company performance. Even companies that do not explicitly promote competition, inadvertently engineer it by creating a conflict between the individual and team. Internal competition may work for the few businesses where there is a VERY clear link between individual performance and reward achieved. Even then, those who do not produce great results will more likely feel demotivated rather than a surge of desire to do better.

Unintended consequences of competition

For the most part, people do not care to compete with colleagues any more than their sense of identity is woven into their occupation. The effects of intra-team competition are often **anxiety**, **loss of trust**, and a sense of **lack of control** (you can't control how colleagues perform). When we compete with our colleagues for scarce resources, unless achieving the organisation's goal is our overwhelming driver (unlikely), we will feel less close to others. These factors lead to a **loss of motivation**.

This is especially pertinent when people are encouraged to work in teams and told that teamwork is critically important – have you ever read a job advert that does not mention the importance of teamwork? In a sporting team, players who lose motivation can be easily replaced, but business does not (fortunately) have the luxury of an employee transfer system. Consequently, a system where only the few who succeed will be happy, leaving a large financial and HR cost of dealing with dis-engaged staff is less than ideal.

False premise 2: People need motivating

They don't. A recent article in the FT highlighting the lessons business could learn from football managers, made this very point. Carlo Ancelloti, formerly manager of both Chelsea and Real Madrid, believes that it is not the role of a manager to motivate his players. **People are naturally motivated**. Rather, it is to ensure that a de-motivational culture does not exist.

The inference is that actively trying to motivate others will likely have the opposite effect. Creating an environment that satisfies some basic human needs will be more effective.

Dog training in business

In contrast, businesses seem to think people won't do things unless coerced. Bonus and incentivisation schemes are premised on the belief that without incentives, you don't get the best out of people. Business uses a variety of tools to do this – financial rewards being the most prevalent. The aim is to increase an employee's focus on achieving a task, for them to work 'harder' and do a better job. Promise them a reward and they will do a trick for you. Essentially, people are dogs.

The problem with this line of thought is that most tools produce unwanted side effects. There are many ways of manipulating behaviour; threat, bribery and force may all ensure compliance in the short term. But they fail to internalize the behavior, and when the rewards stop or don't meet expectations, so does the desired behaviour. To use a psychological term, people will do things for extrinsic, not intrinsic reasons. **Companies should attempt to encourage intrinsic motives amongst their staff**. In order to do that, they need to understand what drives them.

Fundamental motivational needs

Two powerful factors support human motivation.[*] One is that we have a need to feel competent. Overcoming challenges is good for our ego and self-esteem. Another need is to be in control of our decisions and actions. This feeling of autonomy is known as being **self-determined**.

Benefits of autonomy-supportive environments

Businesses that attempt to cultivate a sense of control and autonomy amongst employees will reap the rewards. Individuals will experience greater self-esteem and feel more competent, both of which will likely result in them showing more persistence. Relieving the pressure to perform helps people think more flexibly and creatively, as well as engendering trust - a pre-requisite for great teamwork.

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[*] A 3rd factor, feeling connected to others, is not explored in this article

How rewards undermine motivation

Rewards for performance, or for doing better than colleagues?

When companies reward their staff for performing to a certain standard (e.g., meeting a target), there are two effects. On the one hand, the performer feels competent that they have achieved something. On the other, the very fact that someone else determines whether they receive a reward is manipulative, controlling and demotivating. The two effects compete with each other, and for the most part, the latter is more dominant.

Rewards based upon performing better than colleagues are unambiguous in their consequences; they demotivate everyone. It shouldn't be surprising that the losers are de-motivated – after all, they have the double whammy of feeling both incompetent and controlled. However, it is less intuitive that the winners are also de-motivated. The culprit again is control – they have no control over the performance of their colleagues.

Context, not rewards

An important point is that rewards per se are not de-motivating. If you do a great job and your boss gives you an unexpected bonus, you are not likely to consider this controlling. What *is* controlling is when these rewards are conditional on your behaviour. It might work with dogs, who do anything for a treat, but humans aren't dogs. The concept of **'if you do this, I'll give you that' does not create intrinsic motivation**.

Not re-inventing the wheel

The concept of autonomy vs control is not new in psychology. HR departments should be well aware of it. And yet, businesses continue to undermine the motivation of their people by creating reward systems that are inherently controlling and prevent them feeling self-determined.

Control staff at your peril

Control can be considered to be any context where someone feels under pressure to achieve something. People in organisations feel this all the time. The consequences are detrimental both for personnel and organizational development. People lose interest when they feel they are doing something for someone else, showing less enthusiasm for the task. Decision-making and thinking becomes **less flexible** (pressure creates myopic thinking), **trust**

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breaks down between subordinates and managers, and ultimately, people become **more passive** and **stop taking the initiative**. This is the very opposite of what organisations want.

Businesses also often inadvertently create cultures of **learned helplessness**. If employees perceive that there is little relationship between the quality of their performance and pay/promotion prospects, feelings of helplessness will ensue. They will believe they have no control over their work environment. This is disastrous for motivation.

Power dynamics

The distinction between autonomy and control is especially pertinent where power differentials exist. Any situation where one person manages another leaves the subordinate in a potential position of being controlled. This will significantly influence the nature of the relationship and the behaviours of both people.

How to create a high-performance motivational climate

- Don’t try to motivate! Instead, focus on creating a climate that supports high motivation.
- Ensure people feel autonomous in their work.
- Stop trying to control others, however subtle the manipulation.
- Provide lots of positive performance feedback.
- Remove any incentivisation scheme that focuses on reward, leaves some people feeling incompetent, and has the perverse effect of undermining great performance
- Pay people fairly, treat them well and show gratitude for their work. Make them feel what they do matters.